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Negotiating Public Pension Reforms in Russia, Romania and Latvia: the Role of Compromise Mechanisms

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1. Introduction: The Policy Problem

The growing mismatch between social policy resources and commitments has prompted many post-communist governments to retrench their welfare systems. Retrenchment refers to policy changes that reduce the generosity, coverage, or quality of welfare benefits. As the largest program of social expenditure, pensions have become an obvious target for retrenchment. Have post-communist governments advocating pension retrenchment initiatives been able to translate them into actual policy reforms? What factors account for their retrenchment success and what explains their failure? How far can governments bent on retrenchment go before losing all political support? How effective have the efforts to assemble pro-retrenchment coalitions been in helping the governments implement pension-spending cuts?

2. Theory and Research Design

The politics of scaling back the Western welfare states has generated a great deal of research during the last two decades (Weaver & Pierson 1993; Pierson 1994; Bonoli 2000; Bonoli, George, & Taylor-Gooby 2000; Pierson 2001). All these studies share the concern of conceptualizing the welfare state policy changes, measuring the degree of change, and identifying factors that facilitate or hamper their implementation. If conceptualization and measurement results have been modest at best, then robust hypotheses have been advanced related to major explanatory factors.

First, policy design determines the range of possible reform options, thus making retrenchment vary across policy areas. Previous policies, like PAYG (pay-as-you-go) public pension schemes, lock in a particular path of development by raising the cost of radical reforms. Second, political institutions (majoritarian Vs separation-of-powers) influence the government's ability to cut spending. They affect the number and status of veto actors, i.e., an individual or collective actor whose consent is necessary for a change in policy (Tsebelis 1995). Third, previous policies and political institutions offer opportunities for interest groups to shape the policy reform process. Forth, retrenchment advocates are advised to deploy strategies of obfuscation, i.e., limiting the visibility of cuts, and compensation, i.e., buying off the loyalty of opposition, in order to advance their unpopular reform proposals. And, fifth, they could exploit the fiscal crisis of social policy programs to assemble a powerful coalition in favor of spending cuts. In general, however, the excessive political and electoral risks associated with retrenchment initiatives discourage policymakers from pursuing such cuts in the first place. For this reason, welfare state retrenchment is a decidedly incremental process.

How do these hypotheses bear our in accounting for similar phenomena in post-communist countries or transitional regimes? How different, if at all, is the process of welfare state, and pension in particular, retrenchment in the East? Rys (1998) posits that politicians in the transition countries enjoy a larger room for retrenchment maneuvering, partly because of the magnitude of the fiscal crisis of their welfare systems and partly because of the generally higher popular tolerance for painful reforms. In contrast, this study takes a different approach on the welfare retrenchment process by stressing the relevance of political and institutional factors. It places its research focus on the relationship between different political institutions and policy style. Hence,

Hypothesis 1: **The government's ability to control the policy making process depends the structure of political institutions.**

Hypothesis 2:**Governments operating in systems with a high degree of power concentration are more likely to pursue unilateral retrenchment policies.**

Hypothesis 3: **In political systems characterized by power fragmentation, governments are more inclined to negotiate retrenchment policies with opposition and coalition parties.**

The cases selected for this comparative policy research reflect different degrees of power concentration in the executive. The paper examines the impact of a super-presidential system (Russia), a semi-presidential system (Romania), and a parliamentary system (Latvia), on the ability of their governments to cut pension spending. In particular, it captures the impact of the institutional variables like: the executive-Duma relations (Russia), fragmented party system (Romania), and referenda (Latvia). It accounts for the influential role of transnational financial institutions, like the International Monetary Fund and the World Bank, in social policy reform processes at the domestic level, as well as for the underdeveloped systems of interest representation, and hence, limited influence of civil society organizations.

Because pension reform affects entitlements, it is synonymous with retrenchment. Retrenchment in the area of pensions can be defined as policy changes that result in the reduction of the generosity, coverage and quality of benefits (Bonoli, 2000:35). The rationalization of the operating PAYG (pay-as-you-go) intergenerational pension systems by increasing retirement age, severing the link between contributions and benefits, etc., as well as the introduction of mandatory capitalized pension schemes, serve as instances of retrenchment. A systematic analysis of the three reform cases demonstrates that assembling pro-retrenchment coalitions is a politically complicated task yet not impossible. The cases identify the main actors, their preferences for change as well as the mechanisms they used to influence the reform process and its outcomes.

3. Case Study Russia

3.1 Russia: Mikhail Dmitriev's Privatization Effort (Unilateral Reform)

Initially such privatization plans were not on the pension reform agenda in Russia. Prevalent among reform ideas were those aimed at restoring the insurance design of the pension system while keeping the state as the main provider (Elvira Tuchkova, Interview). As early as mid 1995, the Ministry of Labor and Social Development together with the PF prepared a comprehensive reform proposal. The proposal served as the basis for the so-called 'Concept on Pension Reform' approved by Chernomyrdin cabinet in August 1995 Vladimir Roik, 1998:15). Seeking to diversify the sources of benefit finance, the concept provided for a three-pillar system to replace the dominant PAYG scheme. Non-insurance social pensions (I Pillar) had to be dissociated from the earnings-related pensions (II Pillar) and financed from general budget revenues. Earnings-related pensions had to be strictly insurance-based and financed through social security contributions. And, additional contributions would serve as a primary source of finance for private pensions (III Pillar). Instead of privileged occupational pensions, the concept also envisaged the creation of professional pension schemes to be sponsored by employers in industries with hazardous working conditions. Central to the new organizational structure of the pension system was the introduction of individual social security accounts to succeed the Soviet style 'work books' (Concept of Pension Reform, 1995).

Certainly the concept was not immune to criticism, no policy reform proposal is. In particular, the reactions from the Duma were predictably unpropitious given strained relations between the legislature and executive. One of its ardent critics, Sergei Kalashnikov, then the Chairman of the Duma Committee for Labor and Social Security, maintained that the new reform proposed by the government, ‘does not link the basic pension to the subsistence minimum and pays insufficient attention to state regulation of private pension funds’ (Radio Free Europe/Radio Liberty, 24 August 1995).

Yet the general perception was that the moderate character of the reform proposal would generate extensive support across the Russian political spectrum. And very much so because the reform effectively retained the fundamental principles of public pension provision and conveniently fitted the specifics of the country’s size, labor marker, retirement precedents and transformation process. Voluntary private pension funds were not a novelty since Russia was one of the few transition economies that had such funds in operation ever since 1991. Note that the concept was silent about the introduction of mandatory funded schemes.

Proposals favoring mandatory funded schemes were strongly upheld by several think tanks as early as 1996. One such proposal produced by a group of researchers at the Moscow Carnegie Center argued for a complete overhaul of the public pension system. Their leader, Mikhail Dmitriev, presented capitalized pension funds not only as a functional solution to persistent pension crisis but also as a powerful means to increasing pensions and creating a solid reservoir of domestic sources for investment and growth (Dmitriev & Travina, 1998:162-163).

Also, the World Bank (WB) resolutely supported the funded pillar. Pension reform topped the list of loan coditionalities to Russia and the government’s commitment to reform provided the Bank with an excellent avenue to push ahead with its model. Most importantly, the WB managed to assemble a politically influential group of state institutions that were firmly supportive of the funded pillar. The Russian Central Bank, Ministry of Economy, Inspectorate of Non-State Pension Funds, were among key backers of private schemes (Leonid Iakushev, 1997:10).

Finally, it was President Yeltsin himself who endorsed the reform of the public pension system to include capitalized mandatory schemes. Yeltsin spoke the language of pension privatization in that he regarded such schemes as capable of boosting economic development and freeing retirement provision from the clout of insensitive state bureaucrats (Boris Yeltsin 1997 Address). The government was ordered to prepare a comprehensive pension reform program by November 1997 and submit it to the Duma the following month.

There was no accident that the task of designing such a proposal was assigned to Mikhail Dmitriev. In spring 1997, Dmitriev became Deputy Minister of Labor and Social Development (MLSD) in charge of pension reform. The power position gave Dmitriev an unequal opportunity to shape the proposal according to his own reform priorities. He took the proposal developed by him nearly a year ago at the Moscow Carnegie Center as a basis for pension reform and started to vigorously promote it.

Dmitriev moved quickly to muster support for his radical pension plan. In June 1997, the state committee on economic reform headed by First Deputy Prime Minister Anatoly Chubais, readily endorsed the funded pillar as the key component of pension reform. The proposal was subsequently discussed at the Collegium of the MLSD in July 1997, where it was recommended to reduce the initial share of transfers to the funded pillar from half of the overall social security contribution to a little over one third (Dmirtiev & Travina, 1998:179). With this change, the Chubais committee approved the proposal on October 4, 1997.

Chances were high for Dmitriev's proposal to get approved when Anatoly Chubais, instead of Prime Minister Viktor Chermomyrdin, was scheduled to chair the government meeting. Dmitriev qualified as a member of what Janine Wedel called the 'Chubais Clan', a close group of young scholars from St. Petersburg, who under the tutelage of Chubais, moved to Moscow in the 1990s to occupy key positions in the post communist government (Janine Wedel, 1999:129-131). However, Chernomyrdin instructed the government to delay the cabinet meeting 'in connection with [Chernomyrdyn's] need to be present for the consideration of questions concerning pension reform'. The Prime Minister was sensitive to the growing concerns, especially on the part of the Duma, with regard to the radical character of Dmitriev's proposal. When asked about the pension reform during a Duma hearing, Chernomyrdin replied that 'the government will not undertake any 'stupidities', but [pension reform] will be done as I say, and as the president says' (Radio Free Europe/Radio Liberty, 23 October 1997).

On October 30, 1997, the government turned down the reform proposal prepared by Dmitriev objecting its unduly radical character. Chernomyrdin harshly criticized Labor Minister Oleg Sysuev who presented the draft for submitting it without the full accord of the even the Collegium of the MLSD Radio Free Europe/Radio Liberty, 31 October 1997). The general procedure requires the approval of all the members of the Collegium before any draft is to be submitted to the cabinet meetings. Among key members of the Collegium who disagreed with Dmitriev were PF Chief Vasily Barchuk and First Deputy Minister of Labor Iuri Lyublin. Both maintained that the introduction of a fully funded pension system could prove a ‘catastrophe’ for Russia with its underdeveloped capital markets and bounded possibilities for profitable investment (Segodnya, 30 October 1997).

After his proposal had failed to secure the cabinet’s vote, Dmitriev retained his job at the MLSD but was no longer in charge of pension reform. That responsibility was assigned to Deputy Minister Luyblin whose explicit goal was to reconsider the role of the funded pillar. Indeed, the proposal developed by Luyblin’s team was less radical in that it represented a substantial compromise between those favoring the privatization of the pension system, like Dmitriev or Sysuev, and those opposing it like, Barchuk or Lyublin. It provided for only a modest funded pillar that at the start of the reform in the year 2000 would have amassed 1% out of the overall social security contribution of 27%, the rest being channeled to the public PAYG pillar. The percentage going to the funded pillar would increase to reach 7-8% by the year 2010. In the longer term, however, it had to equal the PAYG share. The compromise variant was approved by the Chernomyrdin cabinet in December 1997, then accepted with only some minor changes by President Yeltsin in April 1998, and served as a basis for the ‘Pension Reform Program’ adopted by Kirienko cabinet in May 1998. A complete package of pension reform draft laws was to be submitted to the Duma in the Fall of 1998.

However, the financial crisis of August-September 1998 gravely undermined all pension reform plans outlined by the government and completely wrote the issue off the political agenda. The crisis served as compelling proof for those who were skeptical of privatizing the system from the very beginning of pension reform debates. But even if the crisis did not occur there would have been little chances for even the compromise variant to be approved and implemented. Neither leftist parties in the Duma, like the Communist Party, nor liberal parties, like Iabloko, supported the private pillar reform. While opposing the government’s proposal, the MPs often called upon the Duma to assume responsibility for pension reform.

Detrimental to the success of pension reform was the technocratic and inherently undemocratic style in which it was designed and debated. Not only the positions of important societal actors, like the trade unions, were neglected but there was no public outreach campaign to inform people about the goals of pension reform. An analysis of media articles devoted to pension reform demonstrated that their overwhelming majority tackled issues only associated with the low level of state pension benefits and persistent pension arrears. The only serious and in-depth discussion of pension reform was carried out only by specialized publications, like the Journal ‘Pensia’, largely inaccessible to the general public. Extensive and inclusive deliberative structures are crucial to ensuring support for reform during the legislative and implementation stages of the reform process.

3.2 Russia: Putin’s ‘Negotiated’ Pension Policy Changes

Upon taking office in May 2000, public pensions become one of Vladimir Putin’s main reform priorities. Significant changes related to the method and level of contributions to the country’s four extra-budgetary funds (footnote: list the funds) were made already a month later. On June 9, 2000, at the initiative of a group of deputies from the Edinstvo faction, and with the full backing of the government, the Duma approved a proposal to combine contributions from all social funds into a single social tax. The proposal shifted the contribution collection function from the management of the respective funds to the Ministry of Tax Collection. Also, the level of the single social tax was lowered from 39.9% to 36.4% - a net reduction of 2.9% (Deputy Finance Minister Sergey Shatalin, Duma Transcript, No. 32, (480), 9 June 2000, pp. 18-20).

The single social tax, however, affected the power balance between the existing providers of social benefits, and, therefore, unavoidably generated stiff opposition. Trade Unions were one the most vocal opposition groups since they risked losing control over the resources of the Social Insurance Fund. Their leader, Mikhail Shmakov, deemed the proposal unacceptable because it transferred employees’ contributions into state property (Mikhail Shmakov, Duma Transcript, 32 (480), p 17, 9 June 2000). Also, the Duma Faction of the Communist Part fully shared union’s concerns. Valery Saikin, the chairman of Duma’s Labor and Social Policy Committee, more than seven hundred workers’ collectives sent letters to the Duma demanding the rejection of the single social tax. He called on his fellow deputies to vote against the proposal (Valery Saikin, Duma Transcript, 32 (480), 9 June 2000).

Mounting resistance to reform put at risk its passage through the Duma in a fairly unmodified form. In such a context, the government's most pressing task became the dispersal of opposition, or better, its elimination. Its habitual strategy of intense lobbying of the Duma factions in order to buy their loyalty for its initiatives did not seem to bear fruit. Nearly half of the parliamentarians from the pro-Kremlin Duma faction 'People's Deputy' (Narodnyi Deputat) still refused to support the single social tax only days before its second reading on June 9, 2000 (Nezavisimaya Gazeta, 8 June, 2000).

The convenient strategy was shortly found. In an ad hoc fashion, the government created a 'rift' among its ranks and reshaped the reform choice presented to the Duma. At issue was the fate of the Pension Fund, the largest among the four extra-budgetary funds. The government camp became split on whether to immediately include the Pension Fund contribution into the single social tax, or delay it until the year 2003. On the one side of the barricade, there were the proponents of the status quo (or the Pension Fund's monopoly). Pension Fund Chief Mikhail Zurabov, with the head of the presidential administration Alexandr Voloshin, Prime-Vice Minister for social affairs Valentina Matveenko, and Prime Minister Mikhail Kasyanov, at his side led the conservative group. What Zurabov and his supporters defended made sense because collecting contributions was the biggest responsibility of the Pension Fund. The opposite side was mainly represented by the finance minister Alexei Kudrin and his deputy Sergei Shatalin. Also portrayed as a liberal group, they opted for the immediate inclusion of the Pension Fund contribution into the single social tax. Neither side was debating the need for reform; they only disagreed on the timing of its enforcement (Segodnya, 7 June, 2000). Respectively, the 'rift' radically reshaped the reform choice presented to the deputies: they did not have to choose between reform and non-reform, but rather between different designs and paces of its implementation.

Predictably, the improvised division within the government faded away already by the second reading of the single social tax. At the plenary session, deputy finance minister Shatalin, ostensibly a member of the liberal camp, articulated a cohesive position of the government. The united government team unequivocally favored the delay of the Pension Fund contribution until the year 2003. They argued that the postponed inclusion of the Pension Fund would serve to prevent possible breakdowns with contribution collection and maintain a decent level of pension benefits (Sergey Shatalin, Duma Transcript, 32 (480), 9 June 2000,p. 20). It should be noted that the budget and finance committee of the Duma was in full agreement with the government. Its chairman, Alexandr Zhukov of the pro-Kremlin Edinstvo (Unity) faction, claimed that the proposal had been carefully examined by the members of his committee and urged the deputies to vote it (Alexandr Zhukov, Duma Transcript, 32 (480), 9 June 2000, p. 38).

Yet the exclusion of the Pension Fund contribution (28% out of 36.4%) from the single social tax would effectively defeat the very rationale of the proposal. It was evident that the government's justifications were not tenable. The first to confront the government team was the influential leader of the Otechestvo–Vsya Rossiya (Fatherland – All Russia) faction Yevgheny Primakov. In his own words, 'Your (government's) arguments are deficient. The only factor that operates here is lobbyism. Let's call things as they really are. When the proposal was submitted to the Duma for the first reading, the Pension Fund was part of the single social tax, then later on, it disappeared. What do you mean to postpone its inclusion for two years? No one knows what might happen in two years (Yevgheny Primakov, Duma Transcript, 32 (480), 9 June 2000, p. 38) [Authors' Translation]. Although the objection was made minutes before the final voting on the Pension Fund amendment, it proved surprisingly successful. It struck a strong cord even with the communists who eagerly rolled behind Primakov to demand the immediate inclusion of the Pension Fund contribution into the single social tax (Interview with Zotova, 5 February 2001). Indeed, Primakov hit the last nail in the coffin of the government's proposal.

While the rejection of the Pension Fund amendment might have upset Zurabov, in reality the result of the voting in the Duma corresponded neatly to the government's original intent: to combine contributions to the social funds into a single social tax. Key to its success was the strategy of securing the consent of the Duma. The government created an artificial division among its ranks and reshaped the reform choice presented to the Duma. As a result, it deflected the attention of deputies away from their own focus issues. Regarding Primakov, his avid support for the immediate inclusion of the Pension Fund contribution into the single social tax indirectly connected to Putin. The Otechestvo leader reportedly had consulted with the president two days before the Duma vote (Segodnya, 10 June 2000).

However, even for Zurabov and his agency, the loss of the function to collect contributions to the Federal Tax Ministry did no longer not matter much. The thing is that Putin took special care to generously compensate Zurabov. In September 2000, the president issued a decree which mandated the creation of unified pension service. Under the new scheme, Zurabov gained the exclusive control of pension calculation and pension payment. The latter function had to be taken away from the local agencies of social protection with the agencies themselves incorporated into the Pension Fund. It lost the power of contribution collection but, again, not totally, because the government gave the Pension Fund the right to collect contributions from the self-employed (Interview with Zotova, 5 February 2001). Of course, these changes made perfect sense in the context of center-regions power relations, but, overall, the single social tax was a clear and easy victory of the government over the Duma.

As for pension reform, the single social tax victory meant only the beginning of a prolonged and complicated process. The first pension reform draft that Putin submitted to the Duma on April 19, 2001, dealt precisely with the status of the Pension Fund. It proposed the establishment of the non-commercial/unified pension service at the federal level responsible for granting and paying pensions. But most importantly, the presidential proposal provided for the elimination of the local agencies of social protection and their incorporation into the Pension Fund (Izvestya, 20 April 2001).

Duma's assessment of the draft law was expectedly critical. The point is that the government and the Duma differ considerably on defining the pension policy problem. While the government invokes the demographic pressures, the Duma, and especially deputies from the leftist factions, cast blame on the poor management of the fund. In May 2001, a group of deputies led by deputy chairman of the Labor and Social Policy Committee, Valentina Savostianova, contested Putin's draft law in the Constitutional Court. They claimed that the unconstitutionality of the draft law in a situation where the constitutional responsibility for paying pensions had been assigned to the local agencies of social protection. Moreover, the legal relations between the subjects of the federation could be altered only through organic laws and not presidential decrees (Izvestya, 26 June 2001).

Repeated efforts of Matveenko to persuade Savostianova to withdraw the petition from the court were to no avail (Interview with Sosnova, 2 August 2001). On June 25, 2001, the Constitutional Court ruled in favor of the president. The court referred to the existing disaccord in the pension legislation, which in turn, justified the altering of legal relations by decree (Izvestya, 26 June 2001).

The experience of early Putin's reforms in the area of pensions demonstrates the centrality of well-crafted manipulative techniques, like dividing the opposition and creating false choices, in order to win the policy battles. No essential concessions were made during the deliberations on the single social tax and Pension Fund's status; the latter change, actually, was effected by decree. These social policy changes corresponded to a broader agenda of Putin, i.e., that of altering the power distribution between federation and regional authorities. The timing of its deliberation coincided with the establishment of the seven super-regions. By reshaping the political and administrative map of Russia, the federal authorities intended to strengthen their ability to influence regional policy. The single social tax provided such an instrument. Under this scheme, the federal tax service would collect contributions to the social funds, forward them to Moscow, which in turn would distribute them back to the regions. As a result, it tied the hands of the regional leaders by stripping them of the power to control the distribution of the social security taxes (Interview with Elena Zotova, 5 February 2001). In short, these policy changes not only influenced the administration and structure of the pension system, but also affected the balance of power in this field.

3.3 Drafting Pension Reform Drafts: Deliberation Sites and Compromise Mechanisms

The drafting of the new pension legislation began as soon as the government formation was completed in August-September 2000. Ministry of Economic Development of Trade (MEDT) and Pension Fund (PF) were charged with preparing Putin's pension reform program. Elaborating it became a matter of sorting out policy differences between these two government agencies and their respective leaders. In particular, the MEDT group headed by Deputy Minister Mikhail Dmitriev, was strongly in favor of partial privatization of the pension system based on capitalized individual accounts. Dmitriev is very well-known among the Russian policy community for his devotion to liberal reforms in the social sector. In 1997, as a

Deputy Minster of Labor and Social Development in the government of Viktor Chernomyrdin, he advocated a plan that provided for a complete phase out of the public pension system along the Chilean model of capitalized schemes. Although the Chernomyrdin government rejected Dmitriev's plan as inappropriate for the Russian transitional reality, his present MEDT permitted him to press for the same model albeit in a less radical form (Interview with Tuchkova, 29 March 2001).

Conversely, the reform preferences of the PF Chief Mikhail Zurabov were not unambiguously in favor of pension privatization, be it even partial. A Putin protégé from St. Petersburg, Zurabov reportedly made fortunes in the health insurance business by stealing good chunks of the market from the state before being appointed head of the PF in 1999 (Interview with Sosnova, 30 March 2001). He would not hide his plan of acquiring full control over pension contributions destined for capitalization. In his own words, 'pension money – it is my business, and I am not going to allow anyone in my kindergarten' (www.strana.ru, 14 November 2001). This was an objection to the original proposal of the MEDT to include non-state pension funds and private insurance companies in administering capitalized pension schemes. Essentially, Zurabov's intent was to consolidate the PF's monopolistic position in social insurance provision after securing the exclusive right to calculating and granting pensions.

Throughout the fall of 2000, deliberation on the main contours of Putin's pension reform plan occurred largely within the drafting agencies as well as between them. Ostensible disagreements between the drafters were deliberately not displayed during joint cabinet meetings. On September 21, 2000, the cabinet only announced the availability of research to finance the transition to a mixed public/capitalized pension system (Komersant 22 September, 2000). Two weeks later, on October 5th, it unveiled plans about the structure of the new system and size of the capitalized component (Vremya Novostei, 6 October, 2000). Yet many critical reform questions, like where pension money would be invested and who would manage it, remained unanswered. Also, the government's technocratic and isolated policy style raised serious concerns about the political sustainability of the proposal beyond the cabinet's decision (Interview with Shanin, 1 August 2001).

The February 7, 2001 Putin's decree to establish the National Pension Reform Council (NPRC) intended to broaden political support for his reform plan. Since it included representatives of the Duma factions, government ministries, trade unions, employers' association, and civil society organizations, the NCPR was certainly the most appropriate instrument to achieve that goal. Putin appointed Mikhail Kasyanov as the chairman of NPC, likewise, shifting the political costs of pension onto the prime minister (Komersant, 8 February 2001). On his part, Putin declared that 'the pension system in its current form has exhausted itself. It is clear what needs to be done: introduce the capitalized system' (Izvestya, 8 February, 2001). These statements indicated to the presence of a strong political on behalf of the top policymakers for pension reform.

The president's penchant for a negotiated pension reform plan did not confine to the establishment of NCPR. On the same day, Putin decreed a 20% raise in the minimum pension effective March 1, 2001 (Izvestia, 9 February 2001). The raise, albeit not substantial, addressed the perennial concerns of the Unions about the state guaranteed minimum (Interview with Shanin, 1 August 2001). In fact, the same concerns shared the International Labor Organization and the World Bank Moscow offices (Interview with Sosnova, 2 August 2001; Interview with Zotova, 5 February 2001). Since the government controls pension spending largely through setting average wages for benefit calculation, Putin could unproblematically afford the increase. Having permitted only modest quarterly increases in the average wage since the recalculation 113 pension law went into effect on February 1, 1998, the government managed to generate a respectable surplus of the Pension Fund. On January 1, 2001, that surplus stood at 98.4 billion rubles which eight times exceeded the level allowed by the law. (MP Valentina Savostianova, Transcript, Duma Hearing on Pension Reform, 20 March 2001, p. 31). The surplus enabled the government to control the size and timing of benefit increases, and, expectedly, in competition with the Duma, improve its political image amongst the elderly (Treisman & Gimpelson, 2001:230).

During spring 2001, NCPR became the major deliberative forum responsible for taking political decisions on the pension reform. Every major government decision on the reform plan would be submitted to the judgment of NCPR members. While publicly fashioned as a compromise between Dmitriev and Zurabov, the first NCPR meeting held on March 19, 2001 favored the PF's chief proposal (Segodnya, 20 March 2001). In fact there was no other way to determine what was the NCPR's choice other than public statements of its members because the meeting was held behind closed doors. What made his proposal more attractive to the NCPR members was its less radical nature. Although his proposed level of pension capitalization was comparable to that of Dmitriev (10% of pension contribution), it had to be achieved over a twenty-year period. In contrast, Dmitriev opted for a ten-year implementation period but under a similar contribution level (Vedomosti, 7 February 2001).

Also new in the Zurabov's proposal was the introduction of the notional accounts. The effective pension contribution of 28% would be equally split in two: half would go to paying the guaranteed basic pension while the rest would be stored in the pool fund of the PF. Likewise, each insured worker would notionally accumulate 14% of his/her official wage on a monthly basis on individual accounts managed by the PF. Under this scheme, the money would be used for paying current pension liabilities and only notional capital would figure on individual accounts. Although a temporary measure, the proposal would help smooth the transition to the actual funded system. Lastly, Zurabov gained support from the top political sponsors, like Putin, Prime Minster Kasyanov, and Vice-Prime Minister for Social Affairs Matveenko (Komersant, 8 February 2001). Hence, the PF chief was promoting the president's reform plan.

The following day Zurabov's proposal tested the mood of the Duma deputies. On this occasion, Dmitriev, not Zurabov, presented the consolidated government's position during the hearing on pension reform in the Duma. In his presentation, he started off appreciating the significance of the hearing and invited the deputies to constructively work with the government on elaborating the reform proposal. He went on to emphasize the importance of gradually bringing the minimum pension to the level of the subsistence minimum; then underscored the merits of the notional accounts; and, wrapped up with the need to introduce capitalized individual accounts. According to Dmitriev, only the latter could wrestle with the demographic pressures and avert the collapse of the pension system. But when he said that the government would make the pension system as stable as the Russian economy the entire audience burst into laughter (Mikhail Dmitriev, Transcript, Duma Hearing on Pension Reform, 20 March 2001, pp. 13-25).

Expectedly, the deputies subjected the proposal to harsh criticism. MP Valery Saikin (CPRF faction) contended that the government's proposal did nothing to increase the level of pension benefits. It only changed the method of granting pensions: from previous earnings and length of service to pension capital. Since Russia lacked developed financial markets, the shift to the funded pillar was illconceived (Valery Saikin, Transcript, Duma Hearing on Pension Reform, 20 March 2001, pp. 3-13). For MP Valentina Savostianova (Russia's Regions faction) radical changes were necessary on the revenue not on the expenditure side of the pension system. The government had to focus on bettering contribution collection, increasing transparency of PF's activities, and changing PF's management style from unilateral to collective. Only such measures could provide for higher pensions (Valentina Savostianova, Transcript, Duma Hearing on Pension Reform, 20 March 2001, pp. 27-28).

Strong disagreements with Putin's reform plan generated alternative proposals already by the second NCPR meeting in April. Grigori Iavlinski, the leader of the Iabloko Party in the Duma and an NCPR member, proposed a twofold increase in pension spending as a percentage of GDP (from 6 to 12%). The leader of the Union of Right Forces, Boris Nemtsov, defended the position of the Russian Union of Industrialists and Entrepreneurs (RUIE). Specifically, the employers favored a larger capitalized component and a greater role for the non-state pension funds and private insurance companies in managing it (www.strana.ru, 17 April 2001). Both proposals were, however, rejected by the NCPR. Prime-Vice Minister Matveenko ruled out the possibility of running pension savings accounts in commercial banks along the model suggested by Nemtsov. She claimed that to be the will of every pensioner and Putin supported it (Izvestia, 18 April 2001).

In late May, the NCPR approved the pension reform concept which represented a package of six draft laws. The reform package mirrored the interests of Zurabov. By retaining full control of the PF's reserves, he became the only player in the pension insurance game. There was hardly anything unusual about the NCPR's decision. Solid support from top political leaders helped Zurabov push his proposal through; NPRC only legitimized it. Also, since Putin set out the rules of the of the NCPR game, it was highly anticipated for his favorite to win over alternative reform proposals.

Although qualified by the government as a compromise mechanism, the NCPR actually offered little opportunity to non-government actors to influence the reform plan. According Oleg Eremeev, the employers' representative to NCPR, the council could not be regarded as an inclusive political structure because the outcome of the pension reform was known a priori. In Eremeev's words, "When we (employers) would ask a question, the government representatives would promise that our concerns would be accounted for along the process. In response to someone's remark, Zurabov would thank for it and underline its importance. Then during the subsequent meeting of the council the organizers would distribute the list the list of remarks made during the previous meeting and their initiators. Usually, they would reject most suggestions citing their incompatibility with the concept of reform. It was the end of discussion. This was the typical government's attitude to all parties represented in NCPR" (Interview with Eremeev, 2 August 2001).

There were no independent evaluations of the government's reform proposal. All meetings of the NCPR looked neat and consensus-generating mainly because no competing actuary calculations would attend those supplied by PF and MEDT (Interview with Shanin, 1 August 2001). Since most NCPF members lacked the necessary expertise, most of their questions were of a sketchy nature. They were usually easy to answer without delving much into the mechanisms of how the new provisions would be enforced. Usually, Zurabov would often make the inclusion of the members' suggestions contingent on their approval of the government's proposal. The promised concessions would be forgotten shortly after he secured the members' consent (Interview with Eremeev, 2 August 2001).

Even in those cases where the government claimed it conceded to the demands of external actors, it ultimately did it its own way. One telling example of the kind was that of the basic (minimum) pension. Under the pressure from the trade unions and international organizations, the government introduced such a provision in the reform proposal. Yet not only the level of the basic was unbearably low but it was set as a concrete number (450 rubles). Such a formulation of the norm did not suit the unions. In their view, it was inappropriate to set concrete levels of the basic pension within Russia's unstable economic environment. Although the government committed itself to gradually bringing the level of the basic pension to that of the subsistence minimum, it did not specify the terms of the increase. In addition, it reserved the exclusive right to setting the indexation coefficient of the basic pension depending on changes in the consumer prices (Interview with Shanin, 1 August 2001).

The diverse composition of NCPR and the complexity of pension reform dampened the chances of speedily reaching a solid consensus over the reform proposal. Four months (February – May 2001) was a relatively short period to fully explore all advantages of NCPR as a compromise mechanism. Also, the short time lag between NCPR meetings and the taking of decisions by the government made it hard to believe that they were scientifically, socially, and politically justified (the first two meetings were held on the same day with those of the government; only the last one took place two weeks later). Everything was so intelligently arranged, so as to avoid any disagreements among members. Uncomfortable people were excluded from the start. That was the case the Deputy Chairman of the Duma Labor and Social Policy Committee, Valentina Savostianova. Savostianova's traditional style of demanding explanations and proofs for every provision of the proposal plus the leadership role within the group of deputies who contested Putin's decree on the status of PF in the Constitutional Court, blocked her seat in NCPR (Interview with Tuchkova, 29 March 2001). In sum, NCPR was yet another mechanism of advancing the reform proposals of the executive. The question is whether the effects of NCPR would remain equally strong at the parliamentary deliberation stage of the reform process. Next section examines this issue in greater detail.

3.4 Parliamentary Deliberation: Compromise Mechanisms and Manipulative Strategies

The NCPR consensus was by no means a sufficient guarantee that Putin's reform proposal would pass through the Duma in a relatively unmodified form. At the suggestion of Zurabov, the Duma modified the composition of the Labor and Social Policy Committee (LSPC) (personal correspondence with MP Oxana Dmitrieva's assistant Alexey Dudevich, 20 January 2002). It transferred eight Edinsto (Unity) deputies from various Duma committees to LSPC (Duma Resolution No. 1567, 24 May 2001). By creating a relative majority of pro-Kremlin MPs (10 out of 28 committee members), the presidential team eliminated the possibility of significant changes in the reform plan before the plenary vote. As a rule, the Duma would vote for bills favorably approved by specialized committees.

Despite the fact that NCPR endorsed a package six draft laws, on June 14, 2001 Putin submitted to the Duma only four. Those most likely to generate controversy, notably the pension investment and professional schemes drafts, were returned to MEDT for further modifications. For similar reasons, the government withdrew the draft law on the PF status to be debated only in fall 2001 (www.strana.ru 9 July 2001). Yet the removal of controversial drafts did not actually change the president's reform concept. The remaining drafts, i.e., on 'Labor

Pensions', on 'State Pension Insurance', and on 'Mandatory Pension Insurance', contained indirect norms on investment and PF status (MP Oxana Dmitrieva, Duma Transcript, 112 (560), 13 July 2001, p. 41). In addition, scheduling the first reading debates of the incomplete presidential package a day before the end of the spring parliamentary session, notably July 13, 2001, maximized the chance of its unproblematic approval.

The first reading debates centered on choosing between Putin's reform proposal and that of Nemtsov's. Nemtsov submitted alternative proposals only to the draft laws on 'Labor Pensions' and 'Mandatory Pension Insurance'. Their reform approaches differed mainly with regard to managing the capitalized component of the new system. While Nemtsov opted for an equal treatment for state and private pensions funds, Putin's proposal disproportionately privileged PF (MP Boris Nemtsov, Duma Transcript, 112 (560), 13 July 2001, p. 10). According to Zurabov, the major strengths of the presidential proposal pertained to lifting wage restrictions from which contributions are paid as well as reducing the length of service requirement for accessing basic pensions to five years. These policy changes would stimulate people to show their real incomes, which in turn would raise the PF's revenues and permit a gradual increase in pensions up to the level of subsistence minimum. As during the NCPR debates, Zurabov promised to include all deputies' amendments in the second reading drafts if they vote the first reading version of Putin's pension reform plan (Mikhail Zurabov, Duma Transcript, 112 (560), 13 July 2001, p. 5).

Predictably, an Edinstvo dominated LSPC committee voted for the presidential drafts laws (MP Pashuto, Duma Transcript No. 125, 25 October 2001, p. 32). Elvira Ermakova, LSPC's Deputy Chairman LSPC of Edinstvo, argued that the committee rejected Nemtsov's proposal because it did not provide adequate protection to recipients of disability and survivor pensions (MP Elvira Ermakova, Duma Transcript, 112 (560), 13 July 2001, p. 11). Further deliberation was confined to questioning the authors of the draft laws, Zurabov and Nemtsov, as well as reports from each political faction. They were, however, interrupted by the Duma Vice-Speaker and leader of the Liberal Democratic Party, Vladimir Zhirinovski. Zhirinovski suggested to discontinue the tedious discussion about old age, and, instead, rejoice the beauty of the summer season in Moscow full of flowers, fountains, and love (MP Zhirinovski, Duma Transcript, 112 (560) 13 July 2001, p. 30). The audience cheered up when MP Oleg Morozov proposed to grant Zhirinovski a pension for political disability (Transcript, p. 30).

Despite the insistence from the parliamentary opposition for further deliberation, a relative Duma majority (56.7%) voted in favor of Zhirinovski proposal (Plenary Session, Duma Transcript, 112 (560), 13 July 2001, p. 33). All three presidential draft laws passed with a 56% margin, while only 30% of deputies voted for those of Nemtsov. The vote of the so-called pro-Kremlim centrist parties or the Alliance of Four (Unity, Fatherland, People's Deputy, and Russia's Regions) was consequential in ensuring Putin's victory. It totals 238 MPs or 52% of the Duma votes. Hence, the Alliance's vote coupled with support from other political parties (e.g., Zhirinovski's Liberal Democratic Party) sufficed to have the draft laws approved in the first reading (MP Zhirinovski, Duma Transcript No. 112, 13 July 2001), p. 20).

A motion of the LSPC Chairman Saikin to remove the draft laws from the agenda and debate the pension reform package as a whole in Fall 2001 did not pass (MP Saikin, Duma Transcript, 112 (560), 13 July 2001, p. 11). The problem was that the deputies approved only part of Putin's reform package without knowing how PF would manage the pension money and how it would be invested. Moreover, Duma's resolution to establish a reconciliation commission mandated to coordinate the second reading aments with the government and president representatives, revealed the deputies' acceptance of the incomplete package. As a rule, such commissions serve as effective means through which the executive can negotiate a suitable solution to the legislative stalemate (Eugene Huskey 1999: 172, Presidential Power in Russia: M.E.Sharpe). Appointing MP Ermakova of Edinstvo to head the commission substantially increased the chances of reaching that solution. As such, it was unlikely that the commission would produce genuinely negotiated outcomes.

The first reading vote followed with a deal between Zurabov and Nemtsov. Nemtsov agreed to withdraw his alternative proposal in exchange for Zurabov's assurance to incorporate non-state pension funds in the presidential reform plan (Interview with Sergey Kabalkin, 17 December 2001). A more formal and specific agreement was concluded during the business-government meeting on October 8, 2001. It stipulated the involvement of non-state pensions funds in administering the mandatory capitalized component of the new system from January 1, 2004. Until then, the pension money would be managed exclusively by the PF and invested in government bonds so as to minimize financial risks (www.strana.ru 8 October 2001).

An insider account reveals that Putin personally instructed Zurabov to accommodate the business's position (Interview with Sergey Kabalkin, 17 December 2001). Yet the business representatives remain skeptical as to the real intention of Zurabov to give up its monopolistic control over the pension money. For this reason, they prepared an alternative proposal to the draft law on pension funds' investment, and through Nemtsov, submitted it to the Duma in mid November. The Union of Right Forces (URF) leader admitted from the start that the business proposal has zero chances of being approved by the Duma. According to Pavel Teplukhin, of the investment company Troika-Dialog, 'Zurabov will use all its political and financial might to kill Nemtsov's proposal. He is going to separately feed each parliamentarian' (Boris Nemtsov and Pavel Teplukhin quoted by www.strana.ru 14 November 2001). As expected, the pro-Kremlin Duma majority turned down Nemtsov's proposal in the first reading on December 21st, 2001. The presidential proposal on pension investment, however, contained no direct norms on incorporating pension funds. In the end, it was agreed that such norms would be developed together with parliamentarians and submitted as amendments to the second reading draft (MP Alexandr Shokhin, Duma Transcript, 21 December 2001, p. 59).

During the Duma hearing on pension reform held on November 14, 2001, Zurabov contended that the reconciliation found compromises on all contested provisions (Mikhail Zurabov, Transcript, Duma Hearing on Pension Reform, 14 November 2001, p. 15). Parliamentarians, and opposition in particular, strongly disagreed. They demanded insurance part of the old age pension to be indexed consistent with wages as well as full payment of pensions to working pensioners. Since only every third pension reaches the age of 70, the life expectancy coefficient had to be reduced from 19 to 10 years. The share of pension contribution used to finance the basic state guaranteed pension had to be lowered too. According to their estimates, 8% and not 12%, was sufficient to finance of the basic pension of 450 Rubles ($15) (MP Valery Saikin, Transcript, Duma Hearing on Pension Reform, 14 November 2001, p. 13).

Two weeks later, on November 28, 2001, during the second reading deliberation of Putin's incomplete reform plan, the presidential team conceded on the right of working pensioners to receive their pensions in full (Mikhail Zurabov, Duma

Transcript, 132 (580), 28 November 2001, p. 36). Allowing working pensioners to combine work with the full receipt of pensions emerged as the most disputed element of reform between the Duma and executive. A public opinion poll conducted by the All-Russia Center for the Study of Public Opinion (WCIOM) revealed that 79% of Russians considered working pensioners must get their pensions in full (www.strana.ru 21 November 2001). By making this concession, the executive not only earned enormous political credit, but also killed a similar Duma bill that would have granted such right to pensioners starting with November 1 (MP Oxana Dmitrieva, Duma Transcript 121 (569), 17 October 2001, p. 32). Other second reading concessions included a more gradual increase of the life expectancy coefficient from 12 to 19 years, higher basic pension to invalids over 80 years old, and better specification of indexations rules (MP Elvira Ermakova, Duma Transcript, 132 (569), 28 November 2001, p. 17).

Predictably, the second reading deliberation did not bring any significant changes to the first reading version. All opposition-sponsored amendments (Communist, Agro-Industrial, Iabloko, Union of Right Forces, and Independents' factions) that would either increase pension spending or strengthen Duma's control over the PF expenditures, were rejected by the pro-Kremlin majority. As primary justifications for rejection, the presidential team would usually invoke lack of resources or incompatibility with reform concept (Mikhail Zurabov, Duma Transcript, 132 (569) 28 November 2001, p. 22). Instead, the pro-Kremlin majority hastily approved 16 amendments related pension insurance contributions proposed by MP Vladimir Dubov of Otechestvo which had not been in advanced coordinated with LSPC as required by the Duma regulatory procedures (MP Vladimir Pashuto, Duma Transcript, 132 (569), 28 November 2001, p. 54).

At the proposal of the Deputy LSPC Elvira Ermakova, the Duma set the third reading vote for November 30, 2001. However, Ermakova submitted the draft laws without formal vote of each LSPC member (MP Nicolai Kolomeitsev, Duma Transcript, 134 (582), 30 November 2001, p. 15). In response to accusations of violating Duma regulatory procedures, Ermakova contended that she had managed to collect 14 signatures from the LSPC members confirming their support (MP Ermakova, Transcript 134, p. 15).

It was Alexandr Kotenkov, Putin's permanent representative to the State Duma, who saved both Ermakova and the fate of the draft laws in general. Kotenkov reminded the deputies that the regulatory procedures did not actually require the committee meeting before the third reading vote (Alexandr Kotenkov, Duma Transcript, 134 (582), 30 November 2001, p.15). It should be mentioned that the office of the president's permanent representatives to both houses of the National Assembly is not a constitutional provision, however. Its legitimacy stems from ex-president Boris Yeltsin's 169 decree of February 10, 1996. Formally established to facilitate the interaction between the presidency and parliamentary chambers, the presidential representatives became strong mechanisms of influencing legislative outcomes. Following Kotenkov's intervention, the Duma adopted the three draft laws in the third and final reading. The laws on 'Labor Pensions', 'State Pension Insurance, and 'Mandatory Pension Insurance' passed through the Federation Council on December 5, 2001, and were promulgated by Putin on December 15, 2001. They came into effect January 1, 2002.

4. Case Study Romania

4.1 Case Study: Romania – The 1999 Pension Negotiated Reform

The first attempt at reforming the public pension system in Romania was undertaken as early as 1992 long before the pension crisis amplified. The Romanian government produced a White Paper (Cartea Alba) on pension reform which outlined major policy changes. With a goal of securing a wide consensus on the reform proposal, the government held extensive consultations with key interested actors during 1993-1996. Trade union confederations, pensioners' associations, opposition political parties, and experts from international organizations offered suggestions for its modification and improvement. So did ordinary Romanian citizens through hot lines established by the government within the Ministry of Labor and Social Protection (Senator Dan Mircea Popescu, Senate Transcript, 24 November 1999, p. 66).

Following a lengthy deliberation process, the government submitted the pension reform proposal to the Parliament in July 1996 to be considered during the fall legislative session of the same year. However, on the eve of November 1996 elections, the reform proposal received no legislative priority. Its main proponent, the Party of Social Democracy (PDSR), postponed the debate of the bill for electoral considerations (Interview with Richard Florescu, 11 January 2001).

The November 1996 elections replaced the leftist government of the PDSR with a center-right government of the Democratic Convention of Romania (CDR). The CDR represented a conglomerate of nineteen reform-minded parties and non-party organizations dominated by the Christian Democratic National Peasants' party (PNTCD) and the National Liberal Party (PNL). But unable to form a majority government, the Christian Democrats and the Liberals were compelled to enter into coalition with the Social Democrats (the Social Democratic Union – USD), consisting of Democratic Party (PD) and the Social Democratic Party (PSDR) and ethnic Hungarian Party (UDMR). This 'coalition of coalitions' produced a highly fragmented party system with strong implications for the decision-making process (Michael Shafir, RFERL, 24 August 1999). In fact, it reduced the possibility for unilateral action and heightened the need for negotiated policy reforms among coalition partners and/or opposition.

Shortly after coming to power, the CDR government withdrew the pension proposal prepared by its predecessor from the Parliament. It was announced that the government needed to only introduce some amendments to the pension bill and resubmit it to the Parliament without delay (Interview with Aghergheloaie, July 7, 2001). The withdrawal literally meant a renewed and sustainable effort of commitment-building of all interested parties in brining about a comprehensive reform of the public pension system.

Labor and Social Policy Minister, Alexandru Athanasiu, headed the working group responsible for modifying the pension reform proposal. A former labor law professor and one of the leaders of the PSDR, Athanasiu became the most outspoken proponent of privately managed capitalized pension schemes to supplement the dominant public system (Monitorul, 4 December 1997). Yet the minister had to confront an equally tougher challenge of winning support from various ministries staffed with colleagues from the ruling coalition as well as social partners for the major policy changes before presenting it to the cabinet for approval. The most controversial provisions of the reform proposal related to the retirement age and length of service increase, change of reference period for benefit calculation, contribution split between employer and employee, replacement rate, and privileged treatment for selected professional categories.

One of the most vocal opposition groups that had to be 'brought in' was that of pensioners. Representatives of the Pensioners' Association used direct meetings with Minister Athanasiu and members of the pension reform working group to press for their demands. They were protesting low pensions as well as discrepancies in the benefit levels of individuals who retired before 1996 and after (Interview with Iordache, 10 July 2001). Those who retired before could not take advantage of a more generous formula introduced in 1996. For instance, in 1999, the average pension of 1990 retirees was roughly $30 per month, whereas the average pension of 1999 retirees was close to $80 per month (de Menil & Sheshinski, 2000:15). In an attempt to appease the frustrated pensioners and secure their support, Athanasiu announced that the Ministry had prepared a draft law targeted to substantially benefit current retirees. The proposal would establish a separate scheme financed with 10% of privatization receipts of state enterprises. This money would be used to top up the pensions of current retirees during the transition to a new system (Evenimentul Zilei, 12 April, 1998). Also, pensioners were promised a one-time adjustment of exiting pensions prior to the implementation of the new law (Interview with Iordache, 10 July 2001).

Another vocal group to contend with was the trade unions. In their frequently staged protests and warning strikes, the unions demanded, among other things, a revision of the standard retirement age consistent with a reportedly low life expectancy in the country (Ziua, 3 April 1998). They claimed that a gradual five increase in the retirement age for both men (from 60 to 65 years) and women (from 57 to 62 years) was inappropriate for the Romanian transition reality (Interview with Baciu, 9 July 2001). Notably, the fragmented structure of the Romanian trade union movement (four major trade union confederations – the Free National Syndicates' Confederation of Romania (CNSLR-Fratia), Cartel Alfa, Democratic Syndicates' Confederation of Romania (CSDR), and National Syndicates' Bloc (BNS), did not prevent the unions to speak with one voice. In particular, the unions' solidarity was manifest during the deliberation in the Social and Economic Council (CES) – the Romanian tri-partite committee comprising the representatives of employers, unions, and the government. (Interview with Colceag, 11 July 2001). The CES bargaining permitted the unions' consent on the need to increase retirement age. According to a union leader, 'through CES, the unions continuously exerted influence on the pension reform proposal. Maybe not all parties were satisfied, maybe not all union proposals were accepted, but CES did function as an effective compromise mechanism

(Interview with Mocanu, 9 July 2001). It should be noted that CES gave a favorable evaluation of the government's reform proposal (CES, 5 October 1998).

In July 1998, after gaining the approval of the cabinet, the government submitted the proposal to the Chamber of Deputies, the lower house of the Romanian parliament. As such, the Chamber's committee on Labor and Social Policy became the main deliberation forum for potential modifications of the reform proposal. The opportunity was real not only for opposition parliamentary parties (PDSR, Party of Romanian National Unity (PUNR), and Greater Romania Party (PRM), but also for civil society organizations. From July 1998 until the start of plenary debates in late February 1999, the committee interacted with union confederations, pensioners' associations, CES, and other parliamentary committees so as to account for their suggestions on its recommendations for change (MP Sarbu, Chamber Transcript, 23 February 1999, p. 10). Committee members, irrespective of their party affiliation, remarked the non-partisan character of their work. The bargaining process permitted real compromises on the most contested aspects of reform (MP Chiliman (PNTCD), Chamber Transcript, 23 February 1999, p. 12; MP Furo (PRM), Chamber Transcript, 23 February 1999, p. 17).

Major compromises were reconfirmed during the plenary sessions which lasted about three weeks (February 23 – March 16). The government agreed to reducing the standard retirement age for women from 62 to 60 years. As a result, women would be able to retire at 60 whereas men at 65. The increase, however, would be gradual and completed in 2013 (Chamber Transcript, 16 March 1999, p. 10). Another important compromise concerned the replacement rate, i.e., the ratio between average pension and average wage. Neither the government's initial proposal of 50% replacement rate, not that of the opposition PDSR's party of 60% were accepted. Instead, the chamber voted, following extensive negotiations in the committee, a replacement rate of 55% (Chamber Transcript, 16 March 1999, p. 11). Equally important was the approval of the PDSR's amendment on adjusting the value of pensions granted in early 1990s to an average index of price increase (Chamber Transcript, 16 March 1999, p. 12). Most definitely, the final vote reflected the depth of compromises reached at this deliberation stage of the reform process. 207 out 221 present during the final debates, voted in favor of the draft law (Chamber Transcript, 16 March 1999, p. 40).

The debate on the Chamber’s version of pension reform proceeded shortly in the Senate, the upper house of the Romanian parliament. Much of the work was carried out in the Senate’s Labor and Social Policy committee during the period of April – October 1999. It considered about 125 amendments but only few of them concerned fundamental issues. For instances, the committee established the index of adjusting pensions granted in early 1990s at a level of no less than 75% of price increase for the period of 1990-1999 as well as set the replacement rate at a level of no less than 45% of the gross national wage (Senate Transcript, 24 November 1999, p. 78).

Overall, the modified proposal was quite favorably received during the plenary sessions (November 24 – December 7 1999). Representatives of all political parties expressed their support for the committee’s version of the reform proposal. According to its chairman, Dan Mircea Popescu of PDSR, ‘pension reform represents a priority for Romania. It’s an example of agreement among the Romanian political class, an example of normality in the life of a certain country’ (Senate Transcript, 24 November 1999,p. 69). Predictably, the Senate’s final vote was unanimous, 121 votes in favor (Senate Transcript, 7 December 1999, p. 62).

President Emil Constantinescu promulgated the law on April 1, 2001. It became effective one year later on April 1, 2001. The law on ‘Public Pension System and Other Social Insurance Rights’ passed by the Senate in December 1999, after more than eighteen months of deliberation, reflects major substantive changes. The law puts a halt to the most unsound practices of the re-reform system, and moderately tightens others. Some of the improvements in the financial sustainability will take the form of additional revenue, others of reduced expenditures.

4.2 Romania –Universal Pension Funds (Unilateral reform)

Plans to add a fully funded component to the PAYG reform proposal emerged at the beginning of 1997. They were initiated by the then Labor and Social Protection Minister Alexandru Athanasiu, and informed by the policy dialogue between the World Bank and the government (Interview with Richard Florescu, 11 January 2001). The government prepared a White Paper which set out the general framework for establishing mandatory, fully funded, and privately administered pension schemes. Using part of the World Bank social protection loan granted to the Romanian government in 1995, the Ministry of Labor and Social Protection (MLSP) organized in 1998 international tender for drafting second pillar legislation. The Pro-Democratia Foundation won the contract and joined the working group at the MLSP (Piata Pensiilor, 4, 2001, p. 11). Once the working group was constituted, the final shape of the proposal would depend on the preferences of its members as well as on the degree to which it interacted with other interested players.

As the leader of the working group, Labor Minister Athanasiu controlled the major provisions of the universal pension funds' proposal, i.e., the second pillar reform. The proposal mandated roughly one third of the average social security contribution to a personal account in a privately managed Universal Pension Fund (UPF). Right from the outset, Athanasiu favored a structure that would permit the government to exercise maximum control over UPFs. Not accidentally, his strongly supported a one-person administration of the Pension Control Commission (PCC) – the main decision-making body of the second pillar. The government would make its willingness to negotiate contingent on leaving this provision unaltered (Interview with Cornescu, 12 January 2001). Later in the process, it would reluctantly concede on basic requirements for UPFs, like minimum founding capital, number of participants, and rate of return (Interview with Mihai Seitan, 10 January, 2001).

Opposition to the government's UPF proposal came from the trade unions and insurance companies. According to Pro-Democratia experts, Georges De Menil and Eytan Sheshinski, unions have withheld heir support in order to a significant role in monitoring of the system, and particularly in the PCC. Existing insurance companies have divided down the middle – those who expect to participate in the new management companies, being supportive, and those who fear that they will be squeezed out being intensively opposed (Romania's Pension System: From Crisis to Reform, 2000:13).

However, the resistance of these interest groups did not restrain to their intent to gain control over UPFs. They would often point to inconsistencies and obstacles to implementing the MLSP proposal. In the view of Misu Negritoiu from Ing Baring Securities, universal pension funds presented two categories of risks for Romania: transition costs and investment returns. If the profitability of funds would fall below a fixed limit, then investment should be shifted abroad (Evenimentul Zilei, 20 May

1999). Similarly, Ioana Maria Vlas, the president of Sov Invest, strongly doubted the UPFs chances to succeed. The inability of the National Pension House to collect contributions in full would impair the normal functioning of the system. A similar deleterious effect would have the absence in the MLSP proposal of the employers' responsibility to make contributions to UPFs (Evenimentul Zilei, 20 May 1999).

Unlike insurance companies, the trade unions were far more confrontational with the governmental working group. The fragmentation of the movement (four large confederations, namely the Free National Syndicate's Confederation of Romania – Fratia (CNSLR-Fratia), National Syndicate's Bloc (BNS), Democratic Syndicate's Confederation of Romania (CSDR), and National Syndicate's Confederation – Cartel Alfa, represent the Romanian workforce at the national level) did not prevent the unions to speak with one voice. Union consolidation was particularly manifest during the negotiations within the Social and Economic Council (CES) – the Romanian tri-partite structure (Interview with Colceag, 10 July 2001). In addition to CES, the unions used direct meetings with MLSP and World Bank experts to push for their policy changes (Cornescu, MA Thesis, June 2000). Initially, they contested the mandatory character of the second pillar, but as the government became increasingly reluctant to yield on this provision, the emphasis shifted to other reform parameters where concessions seemed more easily to obtain.

Not all the confederations accepted the mandatory nature of the second pillar however. BNS, the second largest among the four, developed its own proposal. In essence, it provided for optional, not mandatory contributions to the second pillar split between employers and employees; together with employers, the unions would decide on the level of contribution and criteria for benefit distribution; while the state would provide strict regulations for an effective operation of private pension funds (BNS Assessment, Date???). Predictably, the other three confederations did not support the proposal. In a situation where the government was unambiguously in favor of the mandatory funded pillar, throwing all the backing behind BNS would have ruined their chances to successfully influence the process (Interview with Cornescu, 12 January 2001).

By staying on the course of negotiations, the unions expected the government to meet their other demands. (Interview with Mocanu, 9 July 2001). Key among them were the union participation in the management of the second pillar, collective option of joining a fund, and level of founding capital for a pension fund. Union involvement would make the system more transparent while a lower level of founding capital would foster competition and facilitate the participation of Romanian firms (Interview with Cornescu, 12 January 2001). Even if the government lowered the level of founding capital from $100 million to $40 million, it still seemed high to the trade unions. In mid September 1998, the MLSP promised the unions to further reduce the level of founding capital (Evenimentul Zilei, 13 September 1998). But the general unwillingness of the government to compromise prompted the unions two weeks later to reject the entire UPF proposal within CES (Evenimentul Zilei, 28 September 1998). In response, Athanasiu ruled out any union involvement in the management of pension funds. He claimed that such a provision could be used to force people join particular trade unions. His message was unequivocally harsh: ‘We [the government] have the right not to want something’ (Evenimentul Zilei, 2 October 1998).

There was no doubt that the government needed the union support at that stage of the process. One of the last attempts to secure their support before the approval of the UPF proposal was the inclusion of union representatives in the study tour to Chile in the fall of 1998. The purpose of the trip was to gain first-hand knowledge about the Chilean pension system which inspired the reform model in Romania. Indeed, the diversity of political forces included within the group offered good prospects for bringing the unions on board, and respectively, garner support for the government’s proposal. In fact, the opposite happened. Union representatives become more critical to the appropriateness of the Chilean model for the Romanian transitional reality (Interview with Cornescu, 12 January 2001).

On January 21, 1998, the government approved the proposal developed by MLSP. Its provisions did not reflect any of the demands so keenly pressed by the trade unions. For instance, the $40 million requirement for the founding capital of the pension fund remained unaltered (Monitorul, 22 January 1999). The commitment-building stage has been clearly dominated by the MLSP – the principal veto actor. Within a period of two years (January 1997 – January 1999), it managed to elaborate and pass the UPF draft law. Crucial to its success was the technical assistance from the Pro-Democratia and World Bank experts. Trade Unions, the main opposition force, disposed of a range of mechanisms to influence the process, i.e., CES, direct meetings with MLSP, and study tours, but failed to advance their preferences for reform. Labor Minister Athanasiu just refused to concede to the union demands. As one trade union leader put it: "With all our respect for Professor (of labor law and social insurance) Athanasiu, we strong disagree with his views for pension reform" (Interview with Baciu, 9 July 2001). The unwillingness to compromise with the unions would have a negative impact on the subsequent stages of the reform process though.

4.3 Deliberation – 'Skipping' the Parliament

Predictably, the lack of compromise or, possibly, of political will did significantly slow down the reform process. Only two Chamber of Deputies' (the lower House of the Parliament) committees, that of labor and budget, got to examine the UPF proposal during the period of February 1999 – May 2000. Because of electoral considerations, the proposal was not even scheduled for plenary debates in the lower house during the fall 2000 session, nor had it ever been discussed by the Senate (the upper house of the Parliament) (Paita Pensiilor, 2, 2001, p. 11). Also, the coalitional structure of the CD government posed serious difficulties for a speedy consensus on the UPF proposal. The previous stage seemed relatively uncomplicated because the Social Democratic Party (PSDR), and Athanasiu in particular, which held the MLSP portfolio had exercised strong control over the process. In contrast, parliamentary debates offered PSDR's coalition partners (Christian Democrats – PNTCD, Liberals – PNL, Democrats – PD, Ethnic Hungarian Party – UDMR) as well the opposition (PDSR – Party of Social Democracy) a good opportunity to leave their political fingerprints on the final shape of the proposal. Similarly, groups who were denied access to decision-making earlier in the process were posed to do it now (Interview with Florescu, 12 January 2001).

Yet the MLSP remained the center of deliberation on important modifications to the proposal well into the parliamentary phase. Athanasiu and his staff faced the difficult task of assembling a coalition of powerful political actors in favor of their version of reform. To this end, in May and November 1999, they organized several international conferences in Bucharest (Monitorul 22 May, 1999; Evenimentul Zilei 5 November, 1999). The conferences also purported to strengthen public confidence in relation to the utility of capitalized pension funds for transitioning Romania.

In spite of regular consultations with the unions, the MLSP conceded little to the demands of its main opponent, at least till Athanasiu's resignation as Labor Minister in December 1999. Of course, a potential accord between the two contending parties depended on the extent and nature of MLSP's concessions to key union demands. Unions continued to insist on reducing the founding capital and commission fees for pension funds, as well as a greater role in the functioning of PCC. These policy preferences were evident in the CES's assessment of the UPF proposal in April 2001 (See Table 2).

Having been elected chairman of the PSDR in November 1999, Athanasiu resigned a month later from his post as Labor Minister to concentrate on party affairs. The timing of his departure, around mid December 1999, could not have been more propitious. By that time, both houses of the Parliament had approved the PAYG proposal which did not radically differ from that of the MLSP. Athanasiu's credit for pushing it through the Parliament in a relatively unmodified form was certainly undeniable. In addition, he announced the reduction of the minimum founding capital from $40 million to 10 million euros and the minimum number of participants to a pension fund from 500.000 to 200.000 thousands persons (Evenimentul Zilei, 8 December 1999). Those were indeed important concessions to the trade unions.

While Athanasiu's departure might have been beneficial for the trade unions, the last minute concessions did not help much his successor and party colleague, Smaranda Dobrescu (Evenimentul Zilei, 20 December 1999). The new Labor Minister confronted the challenge of having the UPF draft approved by both houses of the Parliament before the expiration of the CD mandate in November 2000. A related plan provided for a concurrent implementation of both pillars in 2001. Yet with less than a year to presidential/parliamentary elections, Dobrescu's goal appeared unattainable. At the very least, she gave it a try.

Unlike her predecessor, Dobrescu chose not to confront the unions. She even admitted the possibility of unions administering a universal pension fund (Evenimentul Zilei, 4 March 2000). Under the union pressure, the government also accepted the collective option to joining a pension fund as well as the consultative tripartite council (Interview with Dobrescu, 10 July 2001). According to Bogdan Hossu of the CNS Cartel Alfa, the UPF proposal was one of the few legislative acts which enjoyed the full consent of social partners (Hossu, quoted in Piata Pensiilor, 2, 2001, p. 14).

But the strong support of the social partners proved hardly sufficient to accelerate parliamentary deliberations. The Chamber of Deputies did not even schedule the UPF draft law for the final vote during the Fall 2000 session. A proposal which entailed enormous sums of public money, and respectively potential risks, could obviously not become a priority several months before general elections. There clearly was instance of the lack of the political will, because the preferences of the electorate were well known.

In such an inauspicious environment, Dobrescu chose to pass it as an emergency ordinance (Interview with Dobrescu, 10 July 2001). Pursuant to Romanian constitution, emergency ordinances are issued by the government and become laws from the day of their official publication. Subsequently, the parliament can approved or reject them through the normal legislative procedure, but the mechanism serves to speed up the implementation of vital policy reforms.

Not only would the ordinance sidestep the lengthy and uncertain parliamentary procedure, but would also allow the establishment of supervisory institutions for universal pension funds, which otherwise required about two years of work. Dobrescu was even chosen to head the PCC but for political reasons, the information was not made public (Interview with Dobrescu, 10 July 2001). There was also a concern that the new (predictably PDSR) government would abandon plans for a partial pension privatization. In this regard, the ordinance opened the possibility to simultaneously launch both reform pillars as it had been envisaged originally.

The rush with the UPF proposal generated a prompt response from the World Bank and IMF. Although strongly supportive of the second pillar reform, these influential organizations expressed concerns about the investment safety and fiscal sustainability of the system. According to Stephane Cosse, the IMF representative to Romania, the underdevelopment of local capital markets impeded the immediate introduction of universal pension funds, hence the government should proceed gradually. (Evenimentul Zilei, 26 June 2000). Following the IMF, the World Bank also prescribed caution and gradualism (Interview with Florescu, 11 January 2001). The Fund gave its accord to introducing the funded pillar only when the deficit in the PAYG system would not exceed 1% of GDP. This provision figured in the emergency ordinance. It was sort of the deal between the government and IMF (Interview with Dobrescu, 10 July 2001).

However, Dobrescu did not get to carry her pension reform plans out. As her political party (PSDR) concluded a pre-election deal with the opposition PDSR party, she was dismissed from her post as Labor Minister in September 2000 (Evenimentul Zilei, 9 September 2000). Conveniently, her successor, Lucian-Liviu Albu – a non-partisan but an adherent of PNTCD, remained firmly committed to passing the UPF ordinance before November elections (Albu's letter to CES, 7 November 2000). Indeed, the government approved the emergency ordinance on 'Organization and Operation or Universal Pension Funds' on November 24, 2000. It was officially published on December 4, 2000.

4.4 The Revenge of PDSR: Backpedaling the UPF Proposal

One of the first social policy changes undertaken by the new PDSR government (in addition, of course, to changing the name of MLSP to Ministry of Labor and Social Solidarity) was the abrogation of the UPF emergency ordinance. To some extent, this was an instance of political revenge. The outgoing CD government annulled the PDSR's PAYG proposal shortly after gaining power in late 1996.

Yet the abrogation was more than a mere political revenge. Turning the UPF proposal into an emergency ordinance inappropriate from a constitutional perspective. Normally, the second pillar had to be approved through an organic law (Interview with Cornescu, 12 January 2001). A major concern was the means of financing the transition to the reformed system. Using the savings generated by restrictive (retrenchment-like) changes in the PAYG system, as the Pro Democratia experts recommended, was regarded by the new government as unrealistic means of covering the transitional deficit (De Menil and Sheshinski, 2000:25). Therefore, modifying and improving the proposal made perfect policy and political sense.

For that purpose, the government created a subgroup within the Labor and Social Policy Committee of the Chamber of Deputies. MP Smaranda Dobrescu was appointed head of the subgroup (Footnote: After the merger of PSDR and PDSR, Dobrescu was elected on the lists of Polul Social Democrat – the ruling minority government after November 2000 elections). Dobrescu's modified proposal provides for a 2% second pillar contribution for individuals having at least 10 years to retirement age. The contribution will remain constant during the first five years, so as to establish the infrastructure for universal pension funds. Investment will be allowed only in bank deposits and state bonds both Romanian and foreign. Initial restrictions are motivated by the concern to guarantee full security of pension money (Interview with Dobrescu, 10 July 2001).

According to Dobrescu, the Labor and Social Policy Committee of the Chamber of Deputies fully supports this moderate version of reform. Dobrescu's only contender is the current MLSS Marian Sarbu. Surbu favors occupational plans, i.e., virtually the third pillar for the initial phase in order to develop the framework for universal pension funds. However, high labor mobility due to enterprise restructuring makes Sarbu's plan inappropriate for Romania.

Dobrescu maintains the fate of her UPF proposal depends largely on the government. If the government approves it then the parliament should not be a problem. Since PSD holds a majority in the Parliament it should pass unproblematically in both chambers. The government does not feel that the PAYG system is in serious crisis. The situation is indeed grave but the politicians do not understand that it has a long-term character. In addition, the Romanian political class adores the PAYG system of intergenerational solidarity. They would accept the reform of unemployment benefit scheme but not of pensions. Prime Minister Adrian Nastase remains ambiguous about second pillar reform: he said he is not against. Nastase is just being cautious in order to avoid another financial pyramid (Interview with Dobrescu, 10 July 2001).

As of July 2001, Dobrescu was not certain whether her moderate reform will be accepted. The trade unions gave their approval to the old proposal; union leaders have their interests in managing capitalized schemes. The new proposal appeared inconvenient to investors who expected fortunes. Another restraining factor was the low public confidence in financial institutions. The government has to approve and submit the second pillar proposal to the Parliament in November 2001.

5. Case Study Latvia

5.1 Latvia – The Big Bang Approach to Pension Reform

Whereas initial attempts to reform public pension systems failed in Russia and Romania, they proved successful in Latvia. As early as January 1996, Latvia began implementing a fundamentally new pension system based on notional defined contributions (NDC). This was essentially a hybrid system of capitalized and pay-as-you-go pension schemes. It would provide each insured worker with an individual account, but unlike capitalized schemes it would only record pension contributions and use them to finance the benefits of current retirees; hence the term notional. By strengthening the link between contributions and benefits, the NDC reform was touted as a functional solution to the deepening fiscal crisis of the Latvian public pension system.

The NDC reform was the result of over two years of debates among the World Bank experts, Swedish consultants, and representatives of the Welfare Ministry (WM) (Interview with Inta Vanovska, 23 April 2001). On the government's side, it was the then Welfare Minister, Ianis Ritenis, who actually started discussing the need for reform in mid 1993. A member of the Farmer's Union (junior partner of the minority coalition government with Latvia's Way following the summer 1993 elections) and an ex-private insurance officer in Australia, Ritenis strongly opted for a complete phase-out of the public pension system. He favored the introduction of capitalized pension schemes similar to the Chilean model. His commitment to radical reform helped establish a fruitful dialogue between the Ministry and the local mission of the World Bank (WB). Despite the fact that the WB had been equally involved in the neighboring, like Estonia and Lithuania, it was largely this dialogue that made pension reform possible in Latvia (Interview with Inguna Dobraja, 24 April 2001).

Yet in a country of strong European tradition of public pension insurance, Ritenis's privatization ideas had very little chances of gaining clout. Resistance was particularly stiff among his ministerial staff. Most of WM bureaucrats attended international seminars conducted by the German experts which promoted the non-privatization models of reform. An Australian émigré, Ritenis failed to understand the nature of bureaucratic politics in his own ministry. It was not the case that his reform ideas were wrong; rather the minister often lacked diplomatic tact and was not always able to present his ideas in a coherent manner. As a result, he quickly became one of the most unpopular ministers in the cabinet. Retinis relinquished his ministerial position in the summer of 1994 when the Farmers' Union left the coalition (Interview with Peteris Elferts, 27 April 2001).

Ritenis's departure, however, did not backpedal the reform process. His successor, Andris Berzins of Latvia's Way (presently Prime Minster) remained equally interested in maintaining the dialogue with the WB and Swedish consultants.

In December 1994, the government completed the pension reform proposal and sent it to the Parliament. It represented a compromise between supports and opponents of capitalized pension schemes. Accordingly, Latvia would have a three-tired pension system made up of NDC, mandatory capitalized and voluntary capitalized schemes. The most innovative component of reform, the NDC, was adopted from Sweden and modified to suit the Latvian transition reality (Interview with Lilita Velde, 23 April 2001).

In early spring 1995, the two party parliamentary minority coalition of Latvia's Way and Political Union of Economists approved the pension reform concept drafted by the WM. The concept vote was uncommon for Latvian parliamentary system because the legislature usually adopts laws but not concepts. Yet this was done with the aim of securing the parliament's consent for the main framework and deadline of reform (Interview with Peteris Elferts, 27 April 2001). Pension legislation passed the first reading in the summer of 1995 with the second reading conducted shortly before October 1995 parliamentary elections. In order to avoid political lobbying, the third reading was scheduled after elections. On November 2, 1995, the majority six-party coalition of Andris Skele approved the pension reform laws. They took effect on January 1, 1996.

Social policy analysts have underscored the big bang approach to pension reform in Latvia characteristic to stabilization measures at the start of transition (Louise Fox, 1999:9). Pension reform was rushed through the political process in a matter of eight months. Although the major elements of reform received the approval of two succeeding coalition government, the greatest bulk of work, like regulations on how to convert prior contributions into pension capital, had to be designed a restrictive group of technocrats in the WM. No public outreach campaign preceded the implementation of reform; new policy changes remained incomprehensible to even legislators and WM specialists (Interview with Inta Vanovska, 23 April 2001). The hasty change in the benefit formula, however, permitted the government to lower pension spending. Individuals with low incomes were particularly hit (Interview with Lilita Velde, 23 April 2001). So did non-citizens who had worked outside Latvia before January 1996. Such contribution periods were excluded from the legitimate length of service for pension calculation. The latter, according to MP Miroslav Mitrofanov of For Human Rights in a United Latvia (FHRUL), represents a defining feature of the Latvian ethnic democracy (Interview with Mitrofanov, 25 April 2001).

It is, therefore, not unexpected that the pension law has been amended ten times since its enactment on November 2, 1995.

5.2 Latvia – Negotiated Reform (Referendum)

For the first three years following its introuction in 1996, the NDC reform proved an immense success. By early 1998, the enduring deficit of the State Social Insurance turned into surplus. The surplus resulted from the absense of ceiling on comtributions during the initial phaze of implementation as well as the general incentive structure of the NDC reform. Initially there were no reliable records to apply the NDC model (Interview with Inta Vanovska, 23 April 2001). Only the benefits of those retiring in 1997 could be calculated pursuant to the new formula. However, a situation developed in the course of implementation where in the absence of ceilings people legally contributed enormous sums of money shortly before retirement in order to secure a high pension afterwards. The authorities could simply not envision the incidence of fraudulent cases when individuals would sell their houses in order to make high contributions, and respectively, earn the right to a decent pension (Interview with Peteris Elferts, 27 April 2001).

If the issue of excessively high pensions was solved relatively unproblematically by putting a cap on how much an individual can pay into the system, then the distribution of the social insurance budget's surplus proved more contentious. The struggle among the ruling coalition parties for the most generous give-away proposal to pensioners intensified before October 1998 Saeima (parliamentary) elections. Latvia, therefore, represented a classical case of political pension cycle, where politicians resorted to increased pension spending as a means to securing the votes of the most crucial segment of the electorate – the elderly.

How to spend the pension surplus became a hotly contested issue among the parties of the ruling coalition led by the Guntars Krasts of the right-wing nationalist Freedom & Fatherland (F&F) Party in August 1997. Krasts had replaced Andris Skele as prime minister. Whereas the Farmers' Union, Democratic Party, and F&F competed on most generous indexations rates, Latvia's Way (LW) members pushed hard for a proposal that would allow benefit recalculation with higher coefficients. Both measures were implemented before October 1998 elections (Interview with Inguna Dobraja, 24 April 2001).

These populist measures dried up all the reserves. The 50 million lats surplus of the social insurance fund was turned into a 70 million lats deficit. To compare the magnitude of the problem, the annual social insurance budget is roughly 50 million lats (Interview with Robesr Jurdzs, 25 April 2001). The Russian financial crisis of August-September 1998 further under undermined the fiscal health of the social fund.

Although the Skele's newly created Peoples' Party (PP) won the elections, it did not become part of the governing coalition. Skele remained unpopular among many political forces for his authoritative and abrasive style. The LW candidate government of Vilis Kristopans in coalition with the F&F and the center-left party the New Party did not make wrestling the social budget's deficit a top priority. Interestingly enough, the budget was shifting in July 1999. There was already more revenues coming in, thus it no longer was a burden on the state budget (Interview with Peteris Elferts, 27 April 2001).

The new government led by Skele's PP plus LW and F&F decided in July 1999 to enact immediate changes to the pension law in order to battle the deficit. In fact, it was more of PM Skele's idea to undertake austerity measures. WM developed such a proposal in a matter of five days. It provided for an increase in retirement age from 60 to 65 years for both men and women, a cut in pensions to working pensioners, and a shift from forward-looking to backward-looking indexation (Interview with Robert Jurdzs, 27 April 2001). The Saeima hastily approved the amendments to the pension law in two readings instead of the required three readings, on August 5, 1999 (Interview with Peteris Elferts, 27 April 2001).

Skele's proposal sparked strong criticism the Saeima as well as public at large. The parliamentary opposition of Social Democrats and FHRUL easily mustered one third of votes necessary to temporarily bloc the implementation of controversial amendments. According to the Latvian constitution, a national referendum is called to decide on the fate of the law if the organizers manage to collect the signatures of at least one third of eligible voters. By early October 1999, the opposition collected 142 thousand signatures instead of 134 thousand required to hold a referendum (Business & Baltija, 6 October, 1999). A referendum was then called on November 13, 1999.

The threat of the referendum forced Skele and his coalition partners to compromise on their original proposal. On October 18, 1999, the parliament 'amended' the August 5 amendments to the pension law. Accordingly, the retirement age would gradually increase from 60 to only 62 for both men and women, whereas working pensioners would be able to draw a pension of no higher than 60 lats and continue working. The backward-looking indexation rate, however, remained unchanged (Respublica, 10 October 1999).

To a certain extent, the compromise variant fitted interests of all the players in the pension referendum. It did, for instance, address the concerns of the trade unions (Interview with Irina Homko, 23 April 2001). The authorities had compromised ahead of the referendum so as to undermine its rationale of holding. Predictably, the November 13, 1999 pension referendum failed because of a low turnout. However, 94% of those who cast their votes opted for annulment of Skele's austerity measures. As such, the referendum served as an effective compromise mechanism which broadened the political base of support for controversial but necessary pension policy reforms.

6. Conclusions and Policy Recommendations

The experience of Russia, Romania, and Latvia with public pension reform during the past half decade provides an excellent test for hypotheses advanced by the retrenchment theory. As the largest item of social expenditure, public pensions became an obvious target of spending cuts in the face of hard fiscal constraints around mid 1990s. The maturity of public pension systems in these countries carried extensive state commitments to politically crucial segments of the population (e.g., elderly and people of near pension age), and hence raised the controversy and risk of retrenchment-related policies. With varying degree of power concentration superpresidential regime (Russia), semi-presidential regime (Romania), and parliamentary regime (Latvia), all governments resorted to extensive negotiations and dialogue in the process of reforming their public pension systems. In Latvia, the opposition effectively used the referendum to effect negotiated changes; in Romania actors other than the government used the tri-partite council and parliamentary committees as compromise mechanisms; and in Russia, the president established an inclusive political structure, NCPR, to broaden political support for his reform proposal. These cases show that the establishment and use of consultation mechanisms is a necessary if not even sufficient condition of successful social sector reforms. Even if unilateral actions are still common, they are not effective in most cases. Governments enjoying the luxury of high power concentration would avoid non-negotiated solutions in the area of pensions. Following Putin, President Leonid Kuchma of Ukraine created a Russian version of NCPR in May 2001 (Interview with Katya Petrina, 27 July 2001). Yet as the Russia case demonstrates, superpresidential governments often break the rules of political inclusion and resort to Byzantine manipulation and intrigue in order to advance their policy proposal. The task for the policy analyst remains to determine the degree to which state-crafted compromise mechanisms permit non-executive actors to advance their preferences for reform.

Following Nelson (2001), Hausner (2001), Ferge (1999), and Cashu (2001), this paper claims that the politics of social sector reforms discourage unilateral actions that characterized the old communist regimes and, to a large extent, the initial macroeconomic adjustment reforms. Interests groups, legislatures, and mass public are likely to play a greater role in social policy reforms through the establishment of extensive mechanisms of dialogue and consultation. The existence of such mechanisms diminishes the potential of policy reversals, and hence increases the likelihood of their implementation success. However, the inadequate consultation during the early phases of social-sector reform will likely to increase their centrality during subsequent attempts.